

Averting a COVID-19 Debt Trap
April 6, 2021—12:00 p.m. to 12:45 p.m.

Moderator:

Martin Wolf, Chief Economics Commentator
at the Financial Times

Speaker:

Kristalina Georgieva, Managing Director, IMF
Mohamed El-Erian, President of Queens'
College, Cambridge University
Vera Songwe, United Nations Under
Secretary-General and Executive Secretary of
the Economic Commission for Africa

The pandemic has led to an increase in debt level in most countries, as economic activity collapsed, and governments acted to provide economic and social support. Many countries had already elevated debt levels when the pandemic hit. Tackling debt vulnerabilities is critical to prevent divergent recoveries. The panel explored ways to contain debt risks and avert a COVID-19 debt trap.

Key Points:

- **Dangers of the debt trap.** Panelists agreed that the mounting public debt is a major risk to the global economy. *Georgieva* stressed the dangers stemming from divergent recoveries as emerging market economies and low-income countries are burdened by limited fiscal space and high debt levels. *Songwe* highlighted that some African countries are facing not only a debt trap but also a poverty trap, as it is getting increasingly difficult for many people to escape poverty
- **Ways to avert the debt trap.** *Georgieva* stressed the importance of providing comprehensive support to low-income countries and the need to mobilize domestic resources. *El-Erian* noted the need to focus on promoting growth and ensuring better burden sharing in timely and constructive debt restructurings. *Songwe* emphasized four critical components to avert the debt trap: new liquidity; better transparency in public debt; private sector involvement; and recapitalizing the MDBs.
- **Managing the debt problem.** Panelists agreed that there was a need to bring all creditors together to manage the debt problem. *Songwe* noted the changing composition of debt and recommended to focus on the most vulnerable countries. *El-Erian* suggested designing measures to avoid freeriding of the private sector and official creditors not participating in the burden sharing. *Georgieva* called for early action to help countries under debt distress to return to sustainable growth.

Quotes:

"We have to look at all instruments at our disposal and it has to be a comprehensive support for these countries, and countries themselves have to step up". **Kristalina Georgieva**

"I fear that we may face a lost decade to a set of countries in Africa and in Asia." **Mohamed El-Erian**

"It is not so much a debt trap. It is a poverty trap or doubling down of the poverty trap". **Vera Songwe**

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